

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name TORCH LAKE AREA SEWAGE AUTHORITY	County HOUGHTON
Audit Date 12/31/04	Opinion Date 3/29/05	Date Accountant Report Submitted to State: 5/12/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BRUCE A. RUKKILA, CPA, PC			
Street Address 310 SHELLEN AVENUE		City HOUGHTON	State MI
			ZIP 49931
Accountant Signature <i>Bruce A. Rukkila CPA</i>			Date 5/31/05

TORCH LAKE AREA SEWAGE AUTHORITY
FINANCIAL STATEMENTS
HOUGHTON COUNTY, MICHIGAN

**For the Years Ended
December 31, 2004 (Audited)
and 2003 (Unaudited)**

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Torch Lake Area Sewage Authority
Lake Linden, Michigan

We have audited the accompanying general purpose financial statements of the Torch Lake Area Sewage Authority as of December 31, 2004, and for the year then ended. These general purpose financial statements are the responsibility of the Torch Lake Area Sewage Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Authority has not adopted the reporting format of Government Accounting Standards Board Statement No. 34.

In our opinion, except for the effects on the general purpose financial statements of the omission described in the preceding paragraph, the dollar amount of which we have not determined, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Torch Lake Area Sewage Authority, as of December 31, 2004, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The 2003 financial statements were compiled by us and the report thereon dated July 29, 2004, stated we did not audit or review those financial statements and, accordingly, express no opinion or other form of assurance on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2005 on our consideration of the Torch Lake Area Sewage Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Torch Lake Area Sewage Authority, taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented as supplemental information and are not a required part of the general purpose financial statements of the Torch Lake Area Sewage Authority. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, except for the effects on the financial statements of the omissions described previously, the dollar amount of which we have not determined, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC

March 29, 2005

Certified Public Accountants



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees

Torch Lake Area Sewage Authority

Lake Linden, Michigan

We have audited the financial statements of the Torch Lake Area Sewage Authority as of and for the year ended December 31, 2004, and have issued our report thereon dated March 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Torch Lake Area Sewage Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Torch Lake Area Sewage Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and other federal and state audit agencies and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA PC

Certified Public Accountants

March 29, 2005

TORCH LAKE AREA SEWAGE AUTHORITY
BALANCE SHEETS
December 31, 2004 (Audited) and 2003 (Unaudited)

	2004	2003
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 35,424	\$ 38,084
Accounts received-less allowance for uncollectible accounts \$2,000	52,415	55,085
TOTAL CURRENT ASSETS	87,839	93,169
RESTRICTED ASSETS:		
Cash and cash equivalents - equipment	574	16,286
Cash and cash equivalents - debt service	47,033	44,955
Assessments receivable - debt service	51,070	74,619
TOTAL RESTRICTED ASSETS	98,677	135,860
PLANT AND EQUIPMENT:		
Plant	7,256,165	7,256,165
Equipment	234,919	234,919
Building	21,791	21,791
Transportation equipment	14,400	14,400
	7,527,275	7,527,275
Less accumulated depreciation	(3,659,678)	(3,489,885)
TOTAL PLANT AND EQUIPMENT	3,867,597	4,037,390
TOTAL ASSETS	\$ 4,054,113	\$ 4,266,419
LIABILITIES:		
CURRENT LIABILITIES:		
Payable from current assets:		
Accounts payable	\$ 2,790	\$ 5,157
Payroll taxes payable	2,043	2,510
Due to Houghton County	17,913	20,643
Payable from restricted assets:		
Accrued contract interest	2,167	2,833
Current portion of contract payable	106,245	97,371
Deferred revenue	51,070	74,619
TOTAL CURRENT LIABILITIES	182,228	203,133
LONG-TERM LIABILITIES:		
Loan payable	67,726	68,299
Contract payable - Houghton County	260,000	340,000
Less current portion	(106,245)	(97,371)
TOTAL LONG-TERM LIABILITIES	221,481	310,928
TOTAL LIABILITIES	403,709	514,061
FUND EQUITY:		
Contributed capital	2,519,325	2,664,449
Retained earnings - restricted for debt service	47,033	44,955
Retained earnings	1,084,046	1,042,954
TOTAL FUND EQUITY	3,650,404	3,752,358
TOTAL LIABILITIES AND FUND EQUITY	\$ 4,054,113	\$ 4,266,419

The accompanying notes to financial statements are an integral part of this statement.

TORCH LAKE AREA SEWAGE AUTHORITY
STATEMENTS OF CHANGES IN RETAINED EARNINGS AND CONTRIBUTED CAPITAL
For the years ended December 31, 2004 (Audited) and 2003 (Unaudited)

	Contributed Capital Federal and State Grants	Restricted for Debt Service	Retained Earnings
Balance, December 2002	\$ 2,809,572	\$ 45,901	\$ 991,454
Net income (loss)	0	0	(94,569)
Depreciation on fixed assets - federal & state grants	(145,123)	0	145,123
Reserve for debt service	0	(946)	946
Balance, December 31, 2003	2,664,449	44,955	1,042,954
Net income (loss)	0	0	(101,954)
Depreciation on fixed assets - federal & state grants	(145,124)	0	145,124
Reserve for debt service	0	2,078	(2,078)
Balance, December 31, 2004	<u>\$ 2,519,325</u>	<u>\$ 47,033</u>	<u>\$ 1,084,046</u>

The accompanying notes to financial statements are and integral part of this statement.

TORCH LAKE AREA SEWAGE AUTHORITY
STATEMENTS OF INCOME

For the years ended December 31, 2004 (Audited) and 2003 (Unaudited)

	2004	2003
OPERATING REVENUES:		
Charges for services	\$ 220,665	\$ 184,318
Miscellaneous income	22,922	49,738
TOTAL OPERATING REVENUES	<u>243,587</u>	<u>234,056</u>
OPERATING EXPENSES:		
Salaries and wages	62,112	63,872
Payroll taxes	7,689	7,763
Directors' fees	4,955	4,635
Fringe benefits	2,500	3,476
Insurance	31,138	28,305
Miscellaneous	226	1,523
Office expenses	203	386
Operating supplies	62	100
Professional services	28,185	11,327
Repair and maintenance	9,813	14,480
Telephone	1,819	1,210
Testing	4,779	4,354
Utilities	15,445	13,795
Vehicle expense	7,412	6,968
Provision for depreciation	169,793	170,174
License and permits	450	-
TOTAL OPERATING EXPENSES	<u>346,581</u>	<u>332,368</u>
OPERATING INCOME (LOSS)	<u>(102,994)</u>	<u>(98,312)</u>
NONOPERATING REVENUES (EXPENSES):		
Special assessment	21,534	21,575
Interest income	1,461	870
Interest expense	(21,955)	(18,702)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,040</u>	<u>3,743</u>
NET INCOME (LOSS)	<u>\$ (101,954)</u>	<u>\$ (94,569)</u>

The accompanying notes to financial statements are an integral part of this statement.

TORCH LAKE AREA SEWAGE AUTHORITY
STATEMENT OF CASH FLOWS

For the years ended December 31, 2004 (Audited) and 2003 (Unaudited)

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Operating Income (Loss)	<u>(102,994)</u>	<u>(98,312)</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	169,793	170,174
(Increase) decrease in accounts receivable	26,219	34,430
Increase (decrease) in accounts payable	(2,367)	2,553
Increase (decrease) in accrued expenses	(1,133)	695
Increase (decrease) in due to governmental	(2,730)	(1,868)
Increase (decrease) in deferred revenue	(23,549)	(17,856)
Total adjustments	<u>166,233</u>	<u>188,128</u>
Net cash provided (used) by operating activities	<u>63,239</u>	<u>89,816</u>
Cash flow from investing activities:		
Additions to fixed assets	0	(9,132)
Interest income	1,461	870
Net cash provided (used) by investing activities	<u>1,461</u>	<u>(8,262)</u>
Cash flow from financing activities:		
Principal payments on long-term debt	(80,573)	(81,679)
Interest on debt	(21,955)	(19,369)
Special assessment proceeds	21,534	21,575
Net cash provided (used) by financing activities	<u>(80,994)</u>	<u>(79,473)</u>
Net increase (decrease) in cash and equivalents	(16,294)	2,081
Cash and equivalents, beginning of year	99,325	97,244
Cash and equivalents, end of year	<u>83,031</u>	<u>99,325</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest expense	<u>22,622</u>	<u>19,369</u>

The accompanying notes to financial statements are an integral part of this statement.

TORCH LAKE AREA SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2004 (Audited) and 2003 (Unaudited)

NOTE A - DESCRIPTION OF THE REPORTING ENTITY

The contract forming the Houghton County Sewage Disposal system No. 1 was entered into on April 4, 1977 between the Village of Lake Linden, the Townships of Osceola, Schoolcraft, and Torch Lake, and the County of Houghton. The contract called for the acquisition, improvements, enlargement, extension, operation and maintenance of a sewage disposal system. The Facility was completed and became operational in 1979. Incorporated as the Torch Lake Area Sewage Authority on January 14, 1980 with the filing of the articles of incorporation, the Authority is governed by a nine member Board of Trustees. Each governing municipality appoints two representatives to the Board, and the County of Houghton appoints one. Each representative serves a two year term. The Authority provides wastewater treatment services to the Village of Lake Linden, and the Townships of Osceola, Schoolcraft and Torch Lake. The accompanying financial statements include only the Torch Lake Area Sewage Authority and do not include any other governmental agencies or departments.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to timing of the measurements made regardless of the measurement focus applied. The accounting policies of the Torch Lake Area Sewage Authority conform to generally accepted accounting principles as applicable to governmental enterprise funds. The Facility utilizes the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash is defined as checking, certificates of deposits, savings and petty cash.

Fixed Assets

The cost of fixed assets of the Facility are capitalized and reflected on the balance sheet along with accumulated depreciation. Depreciation is provided using the straight-line method over their estimated useful lives. The component parts of the utility plant have estimated useful lives ranging from fifteen to fifty years. Plant and equipment are stated on the basis of cost. Depreciation expense for the year ended December 31, 2004 was \$169,793.

Vacation, Sick Leave, and Other Compensated Absences

Authority employees are entitled to certain compensated absences based on their length of employment. With minor exceptions, compensated absences do not vest or accumulate and are recorded as expenditures when they are paid.

TORCH LAKE AREA SEWAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2004 (Audited) and 2003 (Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Restricted Assets and Fund Equity

Restricted assets represent cash held by the Houghton County Department of Public Works, the four local units of government, and the Authority. This cash is reserved for payment of the sewage contract payable and future equipment purchases. Similarly, a portion of retained earnings has been restricted for the sewage contract payment and equipment purchases. This indicates that portions of fund equity have been legally restricted for those purposes.

Budget

The Board of Trustees follows these procedures in establishing budgetary data:

- a) The Board prepares, adopts and submits an annual operating budget of their respective municipal governments and the Houghton County Department of Public Works three months prior to the commencement of the fiscal year.
- b) For a budget to be adopted, it must receive approval by a seven member vote of the Board of Trustees.
- c) The Board is authorized to transfer budget amounts between activities within its fund; however, any supplemental appropriations that amend the total expenditures of any fund require Board resolution.
- d) Formal budgetary integration is employed as a management control device during the year.

NOTE C - CASH AND CASH EQUIVALENTS

CASH DEPOSITS

At December 31, 2004, the book value of the Authority's demand deposits, consisting primarily of certificates of deposit and other cash equivalents, was \$83,031 with a corresponding bank balance of \$84,688. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance, 100% of the Authority's deposits was covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits.

The composition of cash and cash equivalents, restricted and unrestricted, reported on the balance sheet is as follows:

	2004 (Audited)	2003 (Unaudited)
Unrestricted	\$ 35,424	\$ 38,084
Restricted	47,607	61,241
TOTALS	<u>\$ 83,031</u>	<u>\$ 99,325</u>

TORCH LAKE AREA SEWAGE AUTHORITY**NOTES TO FINANCIAL STATEMENTS****For the years ended December 31, 2004 (Audited) and 2003 (Unaudited)****NOTE D - PROPERTY, PLANT, AND EQUIPMENT**

Changes in the fixed assets in 2004 are as follows:

	Balance 12/31/03	Additions	Reductions	Balance 12/31/04
Buildings	\$ 21,791	\$ 0	\$ 0	\$ 21,791
Plant	7,256,165	0	0	7,256,165
Equipment	234,919	0	0	234,919
Transportation equipment	14,400	0	0	14,400
TOTALS	<u>\$ 7,527,275</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,527,275</u>

The estimated useful lives by major category used for depreciation purposes are as follows:

	Estimated Useful Life
Buildings	31.5 years
Plant	50 years
Equipment	5-10 years
Transportation equipment	5-10 years

NOTE E - LONG-TERM LIABILITIES1978 BONDS

The bonds payable reflected in Long-Term Liabilities consist of general obligation bonds incurred for sewage disposal facilities on behalf of the Village of Lake Linden and the Townships of Osceola, Schoolcraft, and Torch Lake. Houghton County serves as general obligor for payment of principal and interest on the bonds. Annual transfers equal to principal and interest payments on the debt are made to the County Public Works Department based upon contractual agreements by the above-mentioned local units.

SCHEDULE OF TORCH LAKE AREA SEWAGE DISPOSAL SYSTEM BONDS

December 31, 2004

Year	May 1 Interest	November 1 Principal	Interest	Total
2005	\$ 6,500	\$ 85,000	\$ 4,375	\$ 95,875
2006	4,375	85,000	2,250	91,625
2007	2,250	90,000	0	92,250
TOTALS	<u>\$ 13,125</u>	<u>\$ 260,000</u>	<u>\$ 6,625</u>	<u>\$ 279,750</u>

OTHER LONG-TERM DEBT

The Authority also has an installment loan payable which was used to purchase a new 1998 Vactor. The loan, in the amount of \$186,600 at an interest rate of 5.75% commenced on July 1, 1998. As of December 31, 2004, the loan balance was \$67,726.

TORCH LAKE AREA SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2004 (Audited) and 2003 (Unaudited)

NOTE E - LONG-TERM LIABILITIES (Continued)

SCHEDULE OF LOAN PAYABLE

December 31, 2004			
Year	Interest	Principal	Total
2005	\$ 3,340	\$ 21,245	\$ 24,585
2006	2,086	22,499	24,585
2007	758	23,982	24,740
TOTALS	<u>\$ 6,184</u>	<u>\$ 67,726</u>	<u>\$ 73,910</u>

The following is a summary of the changes in the general long-term debt for the year ended December 31, 2004:

	Balance 12/31/03	Increase	Decrease	Balance 12/31/04	Current Portion
Bond	\$ 340,000	\$ -	\$ 80,000	\$ 260,000	\$ 85,000
Installment Loan	68,299	-	573	67,726	21,245
TOTAL	<u>\$ 408,299</u>	<u>\$ 0</u>	<u>\$ 80,573</u>	<u>\$ 327,726</u>	<u>\$ 106,245</u>

As of December 31, 2004, the aggregate maturities of long-term debt for the next three years are as follows:

	Principal	Interest	Total
2005	106,245	14,215	120,460
2006	107,499	8,711	116,210
2007	113,982	3,008	116,990
	<u>\$ 327,726</u>	<u>\$ 25,934</u>	<u>\$ 353,660</u>

NOTE F - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the year ended December 31, 2004 is as follows:

Operating Revenues	\$243,587
Depreciation	\$169,793
Operating Income (Loss)	\$(102,994)
Non-operating Revenue (Expense)	\$1,040
Net Income (Loss)	\$(101,954)
Property, Plant and Equipment:	
Additions	\$0
Net Working Capital (Deficit)	\$(94,389)
Total Assets	\$4,054,113

NOTE G - ENCUMBRANCES

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The Authority does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

TORCH LAKE AREA SEWAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2004 (Audited) and 2003 (Unaudited)

NOTE H - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority continues to carry commercial insurance for property, liability, wrongful acts, crime inland marine, and other risks of loss including worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



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COMMENTS AND RECOMMENDATIONS

Board of Trustees
Torch Lake Area Sewage Authority
Lake Linden, Michigan

We have audited the financial statements of the Torch Lake Area Sewage Authority as of and for the year ended December 31, 2004 and have issued our report thereon dated March 29, 2005.

Our study and evaluation disclosed no conditions that we believed to be material weaknesses in the system of internal accounting controls.

Accounting System

To conform with generally accepted accounting principles and the requirements of the USDA - Rural Development, the modified or full accrual method of accounting should be employed. We were obliged to spend additional time converting the accounting records to the modified or full accrual method for the year ended December 31, 2004.

Board Minutes Documentation

At the first meeting of the year, authorization of the Authority's public depositories (banks), attorney, auditors, and insurance company should be done and noted in the minutes. At the same time, check signers should be authorized and noted in the minutes.

Simplified Employee Pension (SEP)

We are aware that the authority distributes funds to each employee for their Individual Retirement Accounts (IRA). Because you have not setup a qualified retirement plan, these contributions are considered taxable to each of the employees.

It is recommended that the authority adopt a Simplified Employee Pension – Individual Retirement Accounts Contribution Agreement (IRS For 5305-SEP). This is a written arrangement that provides you with an easy way to make contributions toward your employees' retirement income. The SEP rules permit you to make an annual contributions up to 25% of the employee's total compensation. You are not required to make contributions every year. You must contribute to all of the eligible employees who actually performed services during the year. The plan and percentage should be adopted each year.

We would like to thank the staff for the excellent cooperation we received during our audit.

This report is intended for the information of the board of trustees, management, the oversight audit agency and other federal and state audit agencies, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Bruce A. Rukkila, CPA, PC

March 29, 2005

Certified Public Accountants